

DONALD J. NOVOTNY

Interviewed by: Allan Mustard

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Q: It is April 1, 2009 and we are in the residence of Don and Dorothy Novotny in Rockville, Maryland. Don, could you start by telling us a little bit about your childhood, where you were born and grew up and how you turned into the person who you are?

NOVOTNY: Alan thanks, this is very kind of you to do and on behalf of all our FAS (Foreign Agricultural Service) family. As for my early days, it was very unusual to be part of a Czech-American community that had hardly changed its life style and customs and ceremonies from what had been known back in Bohemia before that mass immigration took place in the 1870s. Our family came to Nebraska in 1871. And you know what, 65 years later when I started to school I didn't speak any English but that wasn't a problem because my schoolmates didn't either. It was a Czech community and about my time, they started to bring in German or Nordic ancestry people to be the school teachers at the one room school and so we were forced to learn English. And even during the hardest of times, the depression when I was very young, and in war time, it was a pretty happy, secure existence because all the settlers had their piece of land and food was important in both those trying times and it was a happy situation in which to grow up. I went to school at the University of Nebraska and took ag (agricultural) econ courses. And I had two sisters and my parents lived to a ripe old age and the farm is still in the family, the originally settled farm is still in family hands.

My introduction to FAS and Washington came because of work with 4-H and participating in the exchange program of the 4-H Foundation which sent me to India when I was 19 or 20 in 1954 and there I met the US agricultural attaché, Tim Engebretson and his secretary, Gil Pickett, and you know, that seemed like a great way to go if I ever wanted to see more of the world. So when I returned after about four or five months in India living in the villages and eating off banana leaves on the floor and doing the whole bit with the local customs I thought I wanted to do more. So I did graduate work on ag economics and searched out Tim Engebretson's agency which was then the fledgling FAS and they offered me a job so that got us started.



My first boss was Ray Vickery, the Grain Division Director, and the Branch Chief for whom I worked directly was Bill Starkey, who had a small team of three or four others. We were then involved with the early stages of Public Law 480 which involved sales for foreign currencies, and we often argued with other agencies about food aid programs and whether they interfered with normal commercial trade and whether they do really contribute much to economic development of the recipient countries; it was a very interesting time. Even the new recruits very soon had lots of interaction with people in other agencies of government, State, AID, and Treasury, when there were discussions about the P.L. 480 initiatives.

Q: Can you expand on the P.L. 480 angles a little bit, Don? For example, can you give an example or case study of one of the countries where this came up and how you resolved it, what kind of conclusions you draw when you try to figure out is it a good program for a given country, is it accomplishing its objectives, how did you do that?

NOVOTNY: We would go into supply-demand analysis on the country, try to establish what is their normal level of import dependency and from that reach a conclusion about the foundation level of such commercial trade which food aid ought not interfere with. There would be a lot of quibbling with other agencies who were more concerned about protecting the other traditional suppliers, that was at an early stage when the USA was not a very large commercial exporter of ag commodities, so that a great part of our exports were possible only through food aid. But that, of course, began to change with the overseas economic development that followed; and it began to change because on the US side there developed a great interest in ag exports to help the US trade balance.

I can't really add much, Allan, to the question of other dimensions of the analysis that went into determining how effective this aid was. We did some, you might say, rudimentary attempts at aggregate analysis, to take groups of countries and look at their income levels such as the data were at that time and before and after some periods of food aid, but this was all just too early in the game to have much empirical basis on which to make any such judgment. So the arguments just raged on; the Canadians, the Australians and Argentines would complain that some of these food aid programs are impinging on their ability to develop exports and prosper and no doubt they sometimes did. Not much more I could say. These kinds of issues always came up when foreign delegations visited, they came up when there were meetings of international groups, like the International Wheat Agreement and the FAO bodies; they would take note and they would also gather statistics and try to do analysis of whether Food Aid was damaging to the development of the recipient countries as well as to the expansion of exports by other competing exporters, commercial exporters.

Q: Well you joined FAS in 1950 what?



NOVOTNY: I joined in March of 1957.

Q: And then you went overseas to Japan when?

NOVOTNY: I was assigned as assistant ag attaché<sup>1/2</sup> to the US embassy in Tokyo, Japan in January 1960 and spent four and one-half years there. The ambassador was MacArthur, nephew to the famous general, who was later followed by Reischauer. My immediate boss, the attaché<sup>1/2</sup>, initially was Chuck Elkinton and later Joe Dodson. Serving with me there were Russ Strobel and Don Motz and then following me was Jimmy Minyard.

Q: And what did you do in Japan? Well, first of all why Japan, why were you interested in Japan, or was that offered to you? How did that system work where you were a civil servant in those days and going out on your first tour, what was the dance like?

NOVOTNY: Oh, I hit the ground running. I wanted to get into this and so I studied Spanish for a year and of course I thought I'd mastered it, nothing of the kind, but any way I was getting so I could use it some; every day the morning classes at the Foreign Service Institute. And then I decided I'd branch out into something else so I took Russian for a year, and then, wouldn't you know, I got sent to Japan. (laughter)

Q: How'd that happen? I mean, how did they offer you Japan, was it just kind of a bolt out of the blue, or what?

NOVOTNY: I think Bob Tetro, Sr., who was then in charge of the attaché<sup>1/2</sup> assignments, just felt this would be a good assignment, and that it would be a good fit, whatever. In those days nobody was being sent to language school. Certainly Japan was a place where a lot was starting to happen, and so indeed when we got there, we were just in the midst of a big review to decide whether to give up on the US Wheat (Associates) office and close it down and after a couple of months it was decided to go on. And they brought in a guy from Oregon by the name of Jim Hutchinson to head the office. Incidentally I take great pride and credit in that I helped Jim find an assistant, Paul Sone, who had worked for a governor and had excellent English. Paul helped not only the wheat office greatly, but also the whole cooperator group to get more established and vitalized.

Q: Was this the Jim Hutchinson who had been general sales manager?



NOVOTNY: Yes. In Japan he represented western wheat states for I think around 15 years, and then he came back to USA to serve as general sales manager in FAS for a few years and I think he retired after that. When Dick Baum of Western Wheat and Clarence Palmby of US Feed Grains Council made their first visits the attaché<sup>1</sup>/<sub>2</sub> asked me to deal with them because I had some background in grain and I had been working with the western wheat office somewhat even before coming to Tokyo. So then I helped the Feed Grains office get their start. And the third main thing that stands out was starting the poultry market program. We had a visit from Joe Parker, who was the first head of the poultry export arm of the US poultry industry at that time and Japan looked like a good first target in the Asian area and again I worked with them to find a good local person who could head the office, Katzi Toyota was his name. Following Parker's visit, Katzi and I went down to visit some department stores in Osaka and the result of it was we started in-store promotion which was the poultry industry's first project. And that just grew and grew and grew; everything grew, I mean it was an exciting time for US ag exports and a time when one could really see the accomplishments of the ag attaché<sup>1</sup>/<sub>2</sub> office. So soon the office grew rapidly in size.

Q: So you wound up in Tokyo and they transferred you to New Zealand?

NOVOTNY: Yes, yes. I wasn't all that enamored with the heavy social schedule and indeed in Tokyo it was extremely heavy. There was every night an important social engagement with Japanese counterparts and cooperators and government people.

Q: Every night?

NOVOTNY: Every night of the work week. And it would go from one gathering to another and to another. Those were also times when the social schedule in the diplomatic circuit was extremely heavy and a great emphasis was placed upon active involvement in that by the senior Foreign Service wives in the embassy. So by the time we were three, four years into that life, my wife and I were not sure we could raise a family in such settings and it's just not normal life. So when FAS talked to me about going to New Zealand to head the office where there was only one person in the office, I was somewhat ambivalent, and Dorothy as well. But we went and you know it was like being ag representative to the state of Kansas or something.

Q: I remember you making that comment once that it was a lot like Kansas except Kansas was a whole lot more exciting. (laughter)



NOVOTNY: Yes, anyway. There it was the complete opposite. There was no expansion of trade or export development to work on; instead it was calming the concerns of the New Zealand meat board and New Zealand dairy board, because they were trying to establish markets in the USA and we were not very cooperative because we had import limitations.

Q: Could you talk about that a little bit, about the meat import law and the dairy quotas and what kind of impact that had on your work in New Zealand?

NOVOTNY: Well I mean that was the work, it was to keep current and to find the best face to put on the American domestic and import policies and to try to maintain you know, happy relationships with the people in those industries in New Zealand so that one could do a good reporting job and also be in a position to you know, represent the US each time there was a new development in the US to be able to explain it to them in the best light we could. And also to be able to put New Zealand people from the American side in contact with the appropriate New Zealand counterparts. So useful functions we could perform but they were completely different from those in Tokyo.

Q: Was your reporting mostly competition analysis?

NOVOTNY: Competition not so much because the US was competing with New Zealand products in third countries, at least certainly not commercially; rather it was reporting on the competition in the sense that these are industries here that were trying to ship to the United States.

Q: Okay. And when did you leave New Zealand?

NOVOTNY: I finished in New Zealand I guess in 1965, so I was there barely two years and Ray Vickery, who was still in charge of the grain division at that time, had a vacancy in his Foreign Competition Branch.

Q: Kennedy Round?



NOVOTNY: Yes, it primarily involved work with the Kennedy Round of trade negotiations under the GATT, which was in full swing, and where the formation of the European Common Market was becoming more and more a matter of concern to American agriculture. And so I waltzed right into the midst of that and began almost immediately making trips to London and Brussels and Geneva to talk to counterparts about the future development of the grain imports and exports into and out of Europe, and now that there was to be a common market, how it would bear on the United States.

We first had an agreement with the United Kingdom, who at that stage was not yet a EU member but thinking about it, because the original common market was only six European countries. We fashioned an agreement with the British about how big their imports would be every year and some assurance they would continue those imports. We thought that would provide some kind of foundation for advancing the same notion with the European market, the larger unit next door. But within a short period it was evident that was a disappointment because UK crops were getting bigger due to the advancement of technology and the higher price supports that were beginning to adjust in preparation for joining the common market. Those higher price supports were providing additional incentives, so it was a losing battle.

So by the time the crucial stage of the Kennedy Round came around, with that UK experience, we had to lower the sights a little bit. And Irwin Hedges was the ag representative that Ray loanes sent over to the STR, a relatively new White House agency. Irwin was sort of given the job of being the go-between, between the diplomats and the wall streeters and all the others on the one side, and, on the other side, the ag people, the Department of Agriculture, to try to fashion some way of appeasing the ag sector who was terribly worried about the way the common market would ruin the prospects for a very, very prosperous American agriculture based on exports.

Q: If we could stop on that for a minute or two. Turner Oyloe made the comment once to me that the Common Agricultural Policy was viewed in Europe and in the Department of State as the glue that held the European Economic Community together and that, therefore, agriculture was pushed kind of onto the back burner by the Department of State and sacrificed, if you will, on the altar of European unity. Was that fairly apparent at the time, was that a received wisdom, did that play into the thinking as you were trying to negotiate, whether at the Kennedy Round, or separately?

NOVOTNY: That was the handwriting on the wall at all times. And the best the ag sector could do and ag officials, was to try to convince their opposition within this government and those overseas that agriculture need not be so heavily favored in Europe, that there was enough other reason for them to grow and unify and that US agriculture shouldn't have to give up so much.



Q: But that wasn't accepted either in State Department or Europe?

NOVOTNY: It never was. When it came to crunch time on crunch matters, I would say it was about January, February, March of 1967. We spent months in Europe, mainly Geneva. Howard Worthington was chief USDA rep and I sort of had helped him on the grain and bulk commodities, and then there was another one or two persons from the FAS trade policy unit. So we had a team of about four people.

Oscar Zaglitz was also on that team. Oscar had spent his career in finance and banking circles in I believe both Germany and Switzerland, Zurich, and somehow he'd been in contact with Ray loanes, who had spent a number of years in Germany with the occupation, and so that led him to come to know Oscar. Oscar was put in charge of monetary and economic matters in the FAS International Monetary Branch. Oscar had enormous influence over our little team and he was very helpful because he knew the background of government and economics in Europe, the French side the British side, the Swiss side, whatever. And that was a critical time for this whole conflict between American agriculture and the formation of the common market.

We spent months there. Occasionally John Schnittker would come over; he was the responsible person in USDA, whether it was undersecretary or assistant secretary at that time, and Ray loanes was there a little bit more often, he was the administrator of FAS. During the final stages, Ray was there probably for a month and John was there for almost as long. It was a real pressure time. Two or three of us would go to meet with two or three of the core of the Brussels team in the official residence of the director general of GATT called Villa Bogage; we'd go there almost every day and discuss how important American agriculture was to the success to the trade liberalization movement in the Kennedy Round, etc., and how important certain things were to the development of the European community. It went on and on and on.

And you couldn't believe the opulent life in between with dinners and lunches. Life in Geneva, Switzerland at the time, people can't imagine today how easy and inexpensive it was, the finest of food in the finest of restaurants, the penthouse dining rooms in the finest hotels, and we went from one to another, arguing with our European counterparts and often teaming up with reps from Canada, Australia, Argentina and occasionally somebody from Russia and Japan; it was like nobody else in the world counted, you know.



Anyway, with the original EU commissioner of agriculture, Louis Rabot the quintessential Frenchman, we hit upon the concept of self-sufficiency ratio; we asked why not bind the level of self-sufficiency for this fledgling European community? And the Europeans were somewhat interested in the idea, I think because the Germans and the Brits felt like this may be a way to keep the French a little bit less you know, demanding, less powerful in the new EU setup, and so during those late months of the Kennedy Round deadlock we began to focus on this idea and we did all kinds of calculations about the history and direction of the self-sufficiency of the European community countries in grain. Well we got to the point where we thought they might buy on to idea this and at a certain stage they were about ready to. They, in fact, seemed ready to but at the same time we had a fierce battle developing with other exporting countries who wanted to make sure their interests were protected and that there was a floor price for grain in the world market. The voices of importing voices countries were comparatively minor, but they wanted to have a maximum price too, which was sort of a take-off from the original idea of the international wheat agreement of 1949. So we began to examine that and there was such concern about how were to defend this kind of a minimum price, when after all everybody was worried the Americans were going to produce and flood the world. So the deadlock shifted to the other exporting countries and we had interminable meetings with them and they had lots of money for cocktail parties so it went on even longer. (laughter) Maybe there is nobody else yet alive who can recall those long sessions, oh my God, anyway.

So the deadlock strangely shifted to the exporting countries and they had wheat board representatives and there was irritation on the US side because only a few industry people could attend, persons who were chosen by the secretary's office, some grower's reps and someone from the grain companies. In order to get the export countries to go along with this self-sufficiency ratio idea, which they thought was somewhat dubious, we had to begin to create a framework of a cartel, a market sharing formula. It went into unbelievable detail, who would do what when the prices came down to so and so, which prices would you use as an indicator and whether you would use a basket of prices and how you would adjust country A's share of world trade if he had a short crop, and so on and so on and so forth. It was pretty intricate and yet you know, it looked like maybe it could be made to work.

But what I was totally unaware of was the explosiveness of this kind of thing if brought back and dumped in the laps of the export houses, who had just in recent years pulled off some of their first grand huge export sales to Russia and were enjoying fantastic growth in markets in Japan, Korea and so on, particularly Japan at that stage, and were optimistic about the future of their business. So, okay, we worked out this elaborate thing: self-sufficiency limits to guarantee markets and keep the common market under control, and then, with the exporters, a market sharing agreement and minimum price. No one was very comfortable with this, but all felt that if this is what it takes to get Europe's common market and agricultural policy under control, then it is a good thing. And, of course, you know, stability as opposed to wild fluctuations of commodity prices had some appeal to USA grower reps too.



Okay, we brought this plan home and John Schnittker and Ray loanes and I trotted it out at a big meeting of the broader grain industry which included all the guys from New York and Chicago who were exporting the grain and they just blew a cork, blew up. And I didn't see the whole of it you know, because you don't say everything you think in the big open meeting, but then there were some very hi-level meetings where Mr. Schnittker and Mr. loanes and Ed Jaenke from the USDA domestic side, were told a thing or two and of the US administration's overall decision, and they knew they had to change. Whatever concession we could get from Europe was not worth such complete regulation of the grain business, period. We later learned that decisions concerning the developing war in Vietnam also played a part. Anyway, the irony is that when we went back to the negotiating table the first thing we found was that the Europeans had decided to accept an "SSR binding" (self sufficiency ratio) of 88%. Allan, you know what the EU ratio is today? Instead of being net importers of 15 million tons per year, they are now net exporters of maybe 25 million.

Q: And that of course, the Common Agricultural Policy, led to the European Community, later the European Union, becoming a competitor. And I remember when I joined Grain Division in 1982, we were putting together, one of the first things you had me do was to write computer programs to generate circular tables. And so we were looking at the circular tables and the question became, do we include the European Union, or the European Community, on the competitor list? And the answer was not, the answer was absolutely not, they are not a competitor. And could you talk about that a little; they were a competitor, it was obvious to those of us who were not steeped in the politics, as an analyst we could see they were but we were told from somewhere on high, they are not a competitor you will not include them on the competitor list in the circular tables. And where did that come from?

NOVOTNY: It just, I mean, it came from people who had spent the last ten years or fifteen years, trying to get what they could from Europe treating them as an importer, still hoping that they would remain an importer. And it was about that time when that notion began to change. I think you and I and some of our colleagues in the grain division had as much to do with that as anyone, we said look this is nuts we'd start treating them as a competitor because that's what they had become.



But let me just finish, that when we got back to Brussels the 88% looked very good but we had to say to the same meeting that this minimum price and this market sharing thing is out. Well, not only Canada and Argentina and Australia bolted, but the common market guys whose spokesmen were French said, well that's no good we want that minimum price too because we, France, see ourselves as an exporter and we want stability in the world market, well you're importer shouldn't matter... So if you are not willing to go along with that floor price and that market sharing arrangement, it's all off. So market sharing went, the self-sufficiency went, and you had nothing more than kind of a warmed over international wheat agreement without teeth for implementing the floor and ceiling and that only makes sense, because you had no teeth. But in a way that was also the last gasp struggle with the common market. So that's the end of that chapter.

You know, from my perspective, the attention suddenly turned to Russia and it was in 1972 that Henry Kissinger calls up Ray Loane and says you know it's time we started to talk to the Russians about long term getting some ways to work together. They can export oil and we will export grain.

So USDA Secretary Butz made a trip to Moscow; Ray did not go but Clarence Palmby and a couple of staffers went.

Q: Earl Butz met with Brezhnev on that trip.

NOVOTNY: Yes, I believe he did. In one subsequent trip I can remember in particular, we went in to see Patolichev, who was Stalin's right-hand man and I remember, I guess it was Seeley Lodwick was the delegation head on my side; but I remember Patolichev giving me a whack on my shoulder and saying, you Americans can push us and shove us a few times but then we are going to have to shove back. (laughter)

Q: Well, if we can go back to 1972, 1972 was the great grain robbery, and I've heard Larry Panasuk's version of how they didn't do the crop travel after he went out and did a spring crop survey and then came back and then the attaché<sup>1</sup>/<sub>2</sub> that he worked for said no more crop travel was necessary and so we got caught sort of with our pants down unaware that they had such a short crop that year. Can you talk about that, about, you know, we didn't have satellite imagery in those days and if the attaché<sup>1</sup>/<sub>2</sub>s weren't doing crop travel, we were kind of blind.

NOVOTNY: Well, during our visit, I think it was in February, the one thing they did tell us was they did have a bad freeze and they told us they were interested in all this talk the politicians were making you know about exchanging long-term oil for grain. Of course, we were also offering credit, short term credit, at that time to help get this two way trade going.



It was Butz who headed that first visit, but for some reason Palmby was concerned about how this would evolve and so the discussions at the Butz level were very perfunctory and they didn't get into substance. But then it was the next day that Palmby and his little team met with First Deputy Minister Kuzmin and we talked about the availability of credit and there was reference to the fact they'd had a freeze, then it all just was left without conclusion. We went home and nothing more came of it. And then Palmby left the department and went to work in New York.

We had a visit from the Russians along about April but still, you know, just talking a little bit more about the credit program, but no sign they were going to jump onto it. And then the next thing that happened, July I think it was where they came and worked with the grain companies to do a big purchase. First it was a lot of wheat and then it was feed grain too. This had huge repercussions, including adding to inflationary pressures here in USA. Later, in 1973 and 1974, we had a moratorium on further sales of grain to USSR, and even an embargo on our soybean exports to USSR. Then, finally, in 1975, when they again embargo a large amount, we set up a long term grain trade agreement with USSR.

Q: Yeah. The first LTA was signed in 1975.

NOVOTNY: Yeah, and leading up to that was the cutting across of the contracts, I guess, yes. So in 1972 it was just the large purchase.

Q: Yeah that was the great grain robbery.

NOVOTNY: That stirred everything up.

Q: Right

NOVOTNY: And you know, it even contributed to setting up a price controls.



I remember Earl Butz always telling the story about the fights he had with Bill Simon who was Treasury Secretary at that time and Bill Simon was instrumental in administration's decisions on those matters. He said he went over to Bill Simon's office and found that Simon was really hopping mad. So, at that point Butz told Simon a story about the two flies that flew into the horse barn and landed on the handle of the pitchfork. And one of the flies was from time to time gorging himself on the horse manure all around it, and always came back to sit with the other fly on the handle of the pitchfork that was rammed in the manure until finally that fly again tried to fly off but fell splat into the manure. And the punchline of the story, the moral of the story, is, Mr. Secretary, that one must never fly off the handle when he is full of shit! (laughter) I mess up the story, but Butz told time after time of this moment between him and Bill Simon when they had this meeting.

Anyway, so there were those turmoils and then when 1975 came around and again they had a poor crop and started to buy huge amounts, it led to the bilateral grain agreement.

Q: And then in 1980, despite the agreement, there was still an embargo?

NOVOTNY: Yes, but it was an embargo in response to Russian presence in Afghanistan. There were about 25 million tons bought and all those contacts were cancelled. That was 1980.

Q: Yeah, the embargo started in 1980.

NOVOTNY: But it was in 1975 when the LTA got its start; contracts were not abrogated but apparently the meeting of the top people was instituted as a means of keeping things from getting out of hand.

Well, I remember Dick Bell was deputy assistant secretary at USDA at that time. It was at that time, whether it was because the Soviets had already began to buy big quantities or because we were anticipating they were going to buy big quantities, and fearful of it. It was not we in agriculture but others in government that were fearful. Because of that we were asked by the White House to begin working on the framework of a possible bilateral agreement and you know, one afternoon we just sort of, you know, wrote up what it might look like. Really, the ideas in it were based somewhat on the kind of gyrations we'd gone through with the attempt at an international grain agreement back in the Kennedy era.

Q: So you basically sat down and you drafted the first cut of the LTA in an afternoon?



NOVOTNY: Yes, and it was sent over to the White House and I would say within 24 hours we had a phone call saying get on a plane; it was with Dean Hinton who was special ambassador just back from the country with that wild dictator in Africa that was killing people, anyway Dean Hinton was special ambassador with the State Department but he had a lot of experience with commodity issues prior to his overseas assignments. And who was the other one, someone from STR I guess, I'm not sure. The three of us went over and had a first meeting with the Russian counterparts.

Q: Who'd you meet with on the Russian side, Victor Pershin?

NOVOTNY: Yes, but the chief guy was Gordeyev. I know there has been a Gordeyev in recent years, but this was an earlier guy, and he was a senior operative in the ministry of trade and I guess we also met with the first deputy vice minister, whether it was still Kuzmin or another one I don't recall. But we laid out this idea of an agreement and had a couple of meetings and thought that something like this would be in our common interest. And we came home and then I had an accident and I couldn't go back for the next round and Dick Bell went back himself and they polished and signed it. It provided for twice a year consultations and exchange of information. And it was viewed with always great suspicion by the exporters because they came to like the idea of making these big deals suddenly overnight, but that's what the government wanted, and it wasn't even what Agriculture wanted. But there was a time back there in 1974, 1975, even within the high circles of USDA, there was a time when they really did feel like the threat of these sudden large purchases was so great that it represented something that the American system really couldn't cope with.

Q: Because of the price impact?

NOVOTNY: Yes, that's right. You had just come out of the price control era so you wanted to be able to show that you could keep your house in order and so there was more or less acquiescence with the concept of the grain agreement which would prevent sudden surprises. And we right from the beginning began to invite the Russians to take larger and larger amounts so as to avoid any trade-limiting effect, and they did.

Q: Now you at that point were Grain Division director, right?

NOVOTNY: Right.

Q: When did you become director of Grain and Feed Division?



NOVOTNY: Oh, it was about 1976.

Q: So during the negotiations of the LTA in 1975, what was your job?

NOVOTNY: Well, I was branch chief in the grain division.

Q: Who was the director then?

NOVOTNY: Clancy Jean.

Q: Clancy Jean, okay.

NOVOTNY: Yeah, and so from that point on Russia was a dominant factor in the grain division's work. I mean I remember going to an FAO meeting way back in 1968 and it was the first one I went to, because Bill Starkey who always went couldn't make that one, and I introduced to them the idea of looking at self-sufficiency as a measure of trends in the country's position on trade and at a country's stocks-use ratio as a measure of adequacy of excess of supply. Stocks-to-use ratio became very popular among the FAO types and even among the common market types later on for looking at instability issues. So Russia dominated the scene in the 1970s for us in the grain division.

And in January of 1980 I remember having an invitation to a party at the Russian embassy, it was a party January 4, 1980, and the invitation said "come to a friendly party." And those were the days, Allan, when the only people on the Russian side that turned up were KGB guys, you know, supposedly they were trade reps or something but they were all KGB, some were friendly, very articulate and fun. Anyway, it was a friendly party and I was looking forward to going because I'd been going to those kinds of parties all through the 1970s with the grain agreement.

Except that about 4 o'clock that afternoon after having spent all day in the Old Executive Office Building, sitting on the outside of a room where Howard Hjort and Dawson Ahalt were engaged in fights with other agencies about how damaging an embargo would be to the USSR, and to the USA, and whether an embargo could be made effective or whether the Soviets would get around it. They spent that whole day arguing this.



But at 4 o'clock we all emerged from the Old Executive Office Building and went back to USDA and my instructions were to go back to my desk and call the presidents of all the grain companies and tell them that the 25 million tons of contracts they had signed in recent days were all going to be nullified and would they please come to a meeting tomorrow morning at 10 o'clock in the ag secretary's office. You can imagine the stunned silences I got when I made those phone calls. I guess some of them had an inkling that something like that could happen but it just happened that during that time the Russians bought a tremendous amount of grain that they were being an increasing problem for us foreign policy-wise and we decided to lower the boom on them vis-à-vis Afghanistan and so the embargo. I didn't get to my party. (laughter) You know what, months later I looked for that invitation because I thought that was worth framing, you know, friendly party on the very day. Allan, you remember the mess my desk always was?

Q: Yes.

NOVOTNY: Well that's probably why I never found that invitation. I know I kept it; I couldn't find it. (laughter)

Okay, so the embargo came and the first thing we did was start making excuses for it and of course before long there was a change in administration and the new people wanted to get rid of it right away, and so that was a happy job for us in the grain division, to help show it wasn't working and show how wonderful it would be if trade could be opened back up. So it didn't take long at all, I think April, after the new administration came in.

Q: That would have been then April of 1981 then, after Jack Block came in as secretary.

NOVOTNY: Right, right. We fixed up all the big charts that Jack Block took up on the Hill and showed and it was over and done. But soon after the embargo before the change of administrations, there began to be this concern about China. So then it was decided to make sure while we're at it to keep our house in order by having one of these agreements with China because they are starting to look like they'd be a big player. So at that stage for the grain division it began to be both China and Russia. We did the same thing, you know, we jumped on a plane with Tom Saylor and a couple of guys from State Department and we sat in a Japanese inn near Tokyo airport with our kimonos on and we drafted the Chinese grain agreement. (laughter) See we did that one on the way, it was so sudden we didn't have a chance to do anything at home. And we got there and they basically said this looks good, it makes sense and I think that one was buttoned up very quickly, maybe we had senior people come for a signing ceremony and that began a round of regular consultations with China as well. The next big chapter was the EEP, Allan, and that started in 1985.



Q: That was Senator Bob Dole who kind of initiated that wasn't it?

NOVOTNY: Well, yes, but it was also a guy by the name of Martin Sorkin. Martin was a long time consultant in the Washington for ADM, but in his earlier life he had worked as right-hand-man to Ag Secretary Ezra Benson, and also had experiences on Capitol Hill. Martin provided ideas and inspiration over many, many years to many Congressional people, senior sub-cabinet people in USDA, and to the lobbying community. He was as important as any under secretary USDA ever haexcept he lasted 40 years. (laughter)

Q: He was the instigator then?

NOVOTNY: He was the prime source of the idea of getting tough once more on Europe.

Q: The whole idea was to hit back at the European export restitutions, right?

NOVOTNY: Right.

Q: I have to tell you, I remember when we were "eeping" rice into Turkey and I was the agricultural trade officer in Istanbul, one of my jobs was to find out how much the export restitutions were for baldo rice out of Italy. And I would go talk to the traders in Istanbul, find that out, phone that back in to the grain division to Cindy Tough and the next thing you know we would be "eeping" rice into Turkey at a couple of notches below what the Europeans were offering.

NOVOTNY: Well, you know, having the EEP mandate dumped in our laps in the grain division was an extraordinary coincidence because we had all the experience of working with the who's who of both grain trade and government grains people around the world, and the various grain agreements, so we were able to hit the ground running. Actually, it all began with a special sale of flour to Egypt in 1984; Mel Sims, the USDA general sales manager, and Dick Smith the FAS administrator, and three or four others went over to Egypt. And once again we drafted it in a big hurry and even on the plane were completing the proposal. It involved a massive sale of US flour at a heavily subsidized price to Egypt, the world's largest flour importer; it was intended to hit the Europeans hard.

Q: And did it work?



NOVOTNY: It worked extremely well. The flour industry was ecstatic. But it was really the start of the EEP idea, because people thought wow, the mechanism of this works pretty good. You determine the price and terms at which the ag product has to sell in order to be competitive with the subsidized European flour, and then you invite the trade to bid to determine who can carry out that sale for the least subsidy. This flour sale agreement then became a model for things to come. Soon after, when Martin Sorkin and Bob Dole had their idea about, hey let's do this in a big way, we were ready.

Q: You had the mechanism already in place.

NOVOTNY: We had a workable concept. And so all we had to do was to develop the mechanism and structure to go along with it. We put a little team together and developed a system for reporting on competitive prices overseas. The program worked well, and kept us busy for 10 years after which then the war with Europe over grain finally ended.

Q: We got into the agriculture agreement and the WTO and started making some headway finally on at least getting agricultural trade liberalization on the agenda, I mean, it had not really been on the agenda until 1995.

NOVOTNY: It was always on the agenda, but little or nothing was ever conceded by the EU until 1995.

Q: I don't know how much progress we made since then but at least have got some caps in place and domestic support limits and things like that. And can you maybe talk about that, I mean that sort of sea change that took place in thinking, that in 1985 we were only thinking of taking on the Europeans one-on-one and then 10 years later the landscape changed, and how had it changed, and from your perspective what really were the big differences?

NOVOTNY: Well, I think by the early 1990s there had been a continued growth in exports of value added things and so that began to take the center stage.

Q: So grains were relatively less crucial, they were important but they were not the only game in town really.



NOVOTNY: Right, well and you had after all the Europeans, their self-sufficiency did not stay at 88%, it went to 125% or whatever, and even though there was a great deal of competition throughout the 1990s there still was a lot of optimism for future growth potential for the grain exports worldwide, such as to China. But, I think the growing strength and optimism in the value added sector of US ag exports was the big beneficiary of the grain subsidy war with Europe. There came a lot of push for trade liberalization in items other than the bulk commodities. The last stage of my experience in USDA was totally dominated by the EEP and when we reached a point where that program ran out of gas, it was about the time that I decided to retire. I could not imagine where bulk commodity exports would go after that and I was already four or five years past eligibility for retirement.

Q: What year was that?

NOVOTNY: In 1994. The grain agreements with Russia ended in 1990 and the Chinese shortly thereafter.

Q: And of course Russia dried up as a commercial buyer of grain at that point you know, with the 1991 revolution Russia kind of disappeared as a major market; so that era came to an abrupt halt, they became a food aid beneficiary after that.

NOVOTNY: Right. You know after that even with China, the big news became the oil seed sector, soybeans and meal. They were enjoying much bigger growth than the grains. So you know in retrospect that was just how it worked out; my part was ending as were many of the things that had been going on up to that time.

I can't really add any more except that the FAS was a fabulous experience and it was a great community of people, still is I'm sure.

Q: I guess just one question, if I could ask you to explore a little bit is, over your career in the grain division starting out as a junior analyst and then many years as the director, you saw, you were a witness to the shift away from state trading in grains and most of our trading partners to privatization of grain trade, could you talk about that, how that came about and what you saw as kind of the impact of that?



NOVOTNY: Out of the Russian grain agreement experience, strange as it sounds, even though we had the mechanism to supervise and limit if necessary the huge volumes of trade that might otherwise be sudden and unannounced and market-disruptive, even though we had that mechanism in place, out of that experience came a realization to producers, governments, and end-users of the basic commodities, that the market works better than government controls, even for basic commodities where there had long been a fear that if you just happened to have the wrong kind of drought there would be massive starvation or at least great harm to people in poor countries that are deficient in these basic commodities. Until then, there was always a fear that the international flow of grain was not smooth enough to allow it to go to the places that needed it in times of short supply and very high prices. There was a suspicion the price mechanisms and the trade mechanisms didn't work well enough and so you had to have supplementary government measures. There was all through that period of the 1960s and 1970s, there was still that concern with basic commodities, that they were too critical, and that some countries would not be able to cope with sudden surprises and maybe masses would get hurt. By the mid-1980s we'd had enough experience with really huge quantities with trade with Russia, sometimes occurring when the crop was looking short, that the entire world grain community began to have the confidence that the international price mechanism has matured to the point where it will serve best of all at the international level, just as it does at the national level.

And so the idea of global privatization began to be discussed, and we who had gone through the 1960-1990 period started using every opportunity to talk about how one really doesn't need government entities to do the importing and exporting, even at times when commodity supplies become short. You can rely on the market mechanism you know, it doesn't matter if you are a big importing country, heavily dependent on imports. You could still relax because the global mechanism now works and you will get your grain when you need it. Privatization of world grain trade caught on pretty fast; by all means it wasn't just our government touting it; the private sector around the world quickly got on that bandwagon too. So it was accomplished within a span of five to ten years, starting in the late 1980s and extending to the mid-1990s that the extent of privatization and international sale and purchasing of grain was just turned upside down, I mean you still had a Canadian Wheat Board and an Australian Wheat Board but very little else, even in Russia and China.

Q: Oh, the Australian Wheat Board is a shadow of what it once was.

NOVOTNY: Oh yes, and Argentina during that time changed and well, Russia itself. But so many of the other countries in various ways privatized the handling of these basic commodities so governments faded out. For the first time in the history of man, I think, governments almost everywhere encouraged that to happen. And indeed history has since then shown that you know, people will take care of keeping adequate reserve stocks as individual players in the world market, and so it all works out, even when you have a crop shortfall.



Q: Any final thoughts, Don?

NOVOTNY: Yes. In many ways, I feel that the experiences and outcomes we saw at the global level for grains also opened the door wider than ever before for globalization and more lowering of trade barriers for many other commodities and even non-agricultural goods between 1995 and 2005. The world was able to see for the first time that markets work very well at the global level for all kinds of things.

Q: I want to thank you for your thoughts.

End of interview